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Firm Performance of Banks and Tax Planning

K.R.Bagaria
Professor, Department of Commerce,
Vivekananda Global University, Jaipur, India
Email Id- krb@vgu.ac.in

ABSTRACT- Understanding how the banking industry works is essential because it has ramifications across the economy. The link between bank profitability and tax planning efforts in a developing country is examined in this research. Non-financial business performance and tax preparation have also shown to have a neutral relationship, according to experts in the field. There is also no relationship between company performance and tax preparation. In particular, people examine at how corporation tax, business size, liquidity, leverage, firm age, and firm growth affect the return on assets (ROA) of India's listed banks. The study uses data from all eight listed banks on the Indian Stock Exchange (ISE) from 2015 to 2019. For the analysis of our study, people used the ordinary least squares (OLS) regression model. There is a link between bank performance and business tax preparation, according to our findings. People urge bank CEOs to examine and manage their tax burden in order to improve their profitability.

KEYWORDS- Corporate, Firm Performance, India Stock Exchange, Study.

1. INTRODUCTION

Banks primarily accept deposits plus provide credit to people, businesses, and governments, either directly or through capital markets, for the purposes of financing consumption, investment, and capital expenditures, and therefore contribute to economic development. Between 2000 and 2017, the banking industry in India underwent a lot of changes and advances. These changes range from a growth in the number of banks to a wide array of operations, ownership and corporate governance structures, new product development, and central bank policy and oversight. The Central Bank's clean-up of the financial institutions sector, which took place from 2017 to 2019, is the most current reform that is still relevant. Such changes have an impact on a large number of institutions. All of these initiatives were aimed at improving and mending the banking industry [1].

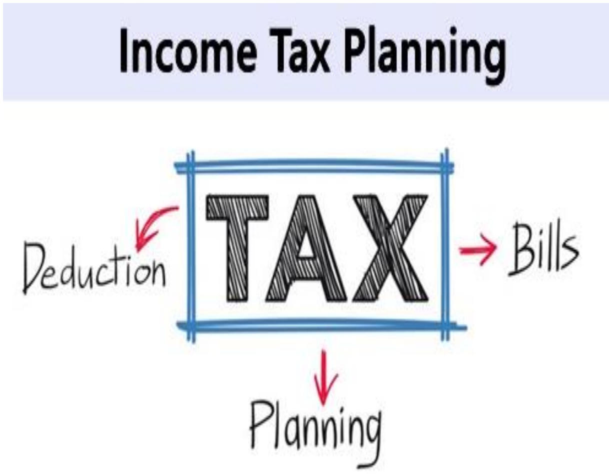

Figure. 1: Salaried Individuals Are Beginning Forward With Tax Planning Along With Researching Ways To Obtain A Refund Of Paid Tax. Though, Money May Be Produced From Diverse Sources, But The Bulk Of Indians Gets Revenue From A Single Source Like A Job Or Company.

The fundamental idea is that the banking sector does not operate in a vacuum; it is the only one that has a direct impact on every other sector of the economy. Banks play a crucial role in the growth of an economy by providing financial services to individuals, companies, and governments. High tax rates are at the heart of the banking industry's issues. Taxation is considered as an economic tool that helps to improve India's economy by reducing the country's budget deficit. Taxation may be described as the collection of compulsory payments by taxing authorities to cover the costs of their operations in which the taxpayer receives no direct benefit. Corporate tax planning, according to experts, is an indirect legal activity that diverts revenue from shareholders to the government.
Tax planning entails a complete study and application of tax policies such as the rules for business start-up and termination, pioneer status incentives, investment allowances, business establishment, acquisition and use of assets for the company's primary purpose, tax exemptions applicable to loans, and other company laws and regulations. The current literature on taxation, according to Commonwealth Association of Tax Administrators (CATA), emphasizes one issue: taxes are punitive in nature, and as a result, taxpayers nearly always shirk their assigned tax responsibility and never completely shoulder the real tax burden. They further claim that Indian

businesses engage in sophisticated tax avoidance techniques. Taxpayers frequently use methods to minimize, postpone, or totally avoid paying taxes, according to experts [2].

Assessments are a significant expense for both the company and its investors, and it is widely thought that investors prefer to avoid paying them. In any event, this argument ignores the non-charge expenses associated with tax evasion, particularly those related with organisational problems. In companies owned/run by establishing family, there is a specific organizational tension between the majority and minority investors. People find that family undertakings are less evaluation powerful than their non-family companions, ceteris paribus, while assessing charge forcefulness and establishing family support using various measures. This finding shows that family business owners are willing to forego charge benefits in order to prevent the non-charge cost of a planned value decline, which may come from minority investors' concerns about family lease hunting disguised as duty avoidance. Our findings are also expected, with privately-owned businesses being more concerned than publicly-traded organizations about potential penalties and brand damage from an Internal Revenue Service (IRS) audit. When people use a restricted amount of duty cover situations, they achieve the identical results [3].

Efforts by taxpayers to reduce, postpone, or avoid paying taxes may be legal or criminal. Tax avoidance refers to legal methods, whereas tax evasion refers to criminal ones. The severe consequences of tax evasion would make it an unappealing option for publicly traded companies [4]. Tax planning has a lengthy history, perhaps as ancient as the tax itself. It may be traced back to 1947, when in the case of Commissioner vs. Newman, Judge Hand ruled that making arrangements for one's business to minimize taxes to a minimum was not malicious. Experts agreed with Judge Hand's conclusions, stating that businesses must understand and follow the regulations to guarantee that their tax burden is minimized. Those with experience in the industry likewise think that paying more tax than the law requires makes little economic sense. Because it is integrated in the pricing of products and services, a tax system influences the cost structure of businesses. There is a widespread idea that businesses that can make better use of their tax planning may decrease their costs. There is a favourable relationship between company success and tax preparation.

Such proponents argue that taxes are a business cost, and that every action that reduces taxation shows increased economic efficiency. This indicates that the benefits of tax planning outweigh the expenses and risks of doing so. This assertion has been disputed by experts. Tax planning has no major impact on business success, according to experts in the area. In Europe, the United States, and Asia, the literature on tax planning and business performance in the banking sector is considerably advanced. The bulk of research on tax planning and company performance in the African setting, particularly in India, focus on the manufacturing, mining, and other non-financial sectors [5]. As previously mentioned, there are limited literatures on profitability of commercial institutions in India. In this regard, there is a significant gap in the literature. Because the banking sector is regarded as a vital component of any economy, it is important to evaluate tax planning and excellent performance in the banking business for the benefit of all stakeholders. Because the banking business drives all other sectors of the economy, the findings of this research will be significant to all stakeholders. As a result, the training is to analyse the relation the presentation of banks listed on the India Stock Exchange (ISE) [6].

The rest of the study is organized in the same way. The next part examines relevant literature, the middle piece discusses research methods, the penultimate component provides and explains analysis and results, and the last portion summarizes up the study. Experts believe that successful businesses are legally transferring money intended for governments to their own pockets. This is considered the study's fundamental theory. The main issue is that tax planning efforts are only successful if it is possible to obtain the lowest taxable revenue without having a negative impact on accounting income, because businesses' fiscal obligations are focused on the former rather than the latter, i.e., taxable income tax. Companies must thus put in a lot of effort and take advantage of tax loopholes to decrease taxable income rather than reported profit in their financial statements [7].

Experts also think that there is a favourable relationship between a company's tax planning and its profitability, as long as the tax benefits gained from these activities outweigh the costs of obtaining the tax advantages. Current theories include Hoffman's notion that companies may gain substantial tax benefits from their operations by better understanding the unpredictability and loopholes in tax rules. This study focuses at the relationship between tax preparation and company performance in companies other than financial institutions. They found no link between tax preparation and business success. Various academics have also looked at the relationship between corporate tax strategy and mining company profitability.

Their research revealed no substantial relationship between corporation tax and firm performance, and a negative association between liquidity and business success. Experts in the sector also discover a neutral relationship between non-financial firm success and tax preparation. Researchers also believe that there is no link between company performance and tax preparation. Furthermore, Desai et al. show that tax preparation has a detrimental impact on company performance. Taxation has a negative impact on the banking sector's performance [7]. After investigating the effect of corporate tax avoidance on company profitability, researchers think that there is a significant and essential link between tax evasion and firm profitability. Corporate income tax and business success have a positive relationship, according to experts. Experts in the industry believe that the size of a company affects its financial performance.

2. LITERATURE REVIEW

W. H. Hoffman Jr. says that the article focuses on tax planning theory. Tax planning is the ability of a taxpayer to organize his financial operations in such a way that he incurs the least amount of tax obligation. When the term "tax planning" is used, it refers to effective tax planning. All tax planning does not result in a tax burden that is reduced to the targeted minimum. Tax planning that isn't tailored to the particular taxpayer's needs may have the unintended consequence of increasing the tax burden. Tax planning involves the use of foresight, and as a result, it is

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concerned with issues that may arise in the future. Unfortunately, tax preparation is frequently the result of considerable thinking. The taxpayer who learns about the six-month holding period for obtaining the long-term capital-gains advantage too late, much to his dismay, is likely to profit from his errors in future actions. Author is ready and eager to engage in the tax preparation process after being burnt once. It's important to distinguish among avoidance and evasion. For taxpayers, these concepts have become equal much too often. Failure to distinguish between these distinct ideas tarnishes the tax planning process and may result in serious legal repercussions [8].

M. A. Nnadi et al. noted that the study focuses on the effect of taxes on dividend policy, especially in Nigerian banks. The objective of the study was to look at the relationship between profit, dividends, and taxes, particularly in the banking industry. The findings support the M&M theory's theoretical assumptions. The hypothesis was tested using normal multiple regression analysis. The study cited historic dividend patterns, concerns about maintaining a target capital structure, present levels of financial leverage, shareholder demand for dividend income, regulatory requirements and limits, such as capital impairment, the desire to convey positive signals to investors, and the desire to follow the industry's dividend distribution schedule as factors impacting bank dividend policy. The findings of the study indicate a strong link between taxes and bank dividend structures, and they also imply that profit is a key factor in determining a company's dividend policy. The hypothesis, which demonstrated a substantial effect of earnings on dividend and a positive connection between profit, tax, and dividend, backs this up. The study backs up several financial theorists' theories, recommending capital gains instead of dividends for high taxpayers, and that banks' dividend policies, particularly in Nigeria, should be closely assessed based on the bank's specific circumstances, rather than on age-old conventional reasons generally formed by academics [9].

R. O. Salawu et al. stated in the paper that the research concentrated at association preparation listed businesses from the year 2004 to 2014, in Nigeria. The audited yearly financial reports of the sampled firm and the Nigerian Stock Exchange fact books were used to construct a panel of financial characteristics for 50 non-financial listed companies across 10 sectors. At a 5 percent level of significance, the pairing indicates tested time. This indicates that tax preparation does not cause in either direction results reveal substantial non-directional causal relationship, suggesting that both null hypotheses are true there is no big unintentional link from Tax Planning to Firm Value [10].

3. CORPORATE SUCCESS OF BANKERS

People use secondary data from all eight (8) banks recorded five-year period, giving us a total of 40 years of observation. All of the banks listed on the ISE were chosen based on the availability of access to their financial statements throughout the research period (2015-2019). Firms' financial performance may be assessed in a variety of ways (e.g., return on assets, return on equity, gross profit margin, and so on), but return on asset (ROA) is used to operationalize the performance measure as a dependent variable since it has been used in a number of studies to reflect business profitability. Because corporate income tax is not the only variable that impacts profitability, control variables such as business size, firm age, liquidity, firm growth, and leverage were also used. Because it provides reliable and unbiased estimates, the study uses a regression model that combines time series and a cross sectional unit. The ordinary least square (OLS) regression model is used to examine the relationship between the tax planning variable, the company performance measure, and the study's control factors. Secondary data from the ISE was put into Microsoft Excel and then imported into the statistical software for social science for analysis and interpretation.

4. DISCUSSION

ROA, which is a proxy for company performance, has a minimum of -0.0368 and a high of 0.0884, with an average of 0.0296 throughout the research period. A high of 0.8265, an average of 0.2706, and a low of -0.3376 are also shown for corporate income tax. The average business size, as assessed by total asset, is GHC 5032.34 million, with a high of GHC 13229 million and a low of GHC 1600 million. Furthermore, the average liquidity and leverage of companies are 1.0521 and 0.4587, respectively. Table 1 indicates a minimum of 6 years and a maximum of 66 years for bank company age, with an average bank firm existence of over 37 years, indicating that the banks chosen for the study are fairly stable. The ratio of current total assets to prior total assets, which is used to assess business growth, has a high of 0.5848, a low of -0.0390, and an average of 0.2057.

The correlation matrix of Pearson is used in the research to evaluate the degree of probable collinearity between the examined variables. The efficiency of the produced coefficients is influenced by the degree of link between the variables. The findings are given in Table 2. The findings indicate that there is no significant connection between the coefficients, indicating that the regression is usually free of multicollinearity issues. The study's coefficients are calculated at a significance level of 0.05 ($p = 0.05$). The significance threshold for this study is 0.002 ($0.002 < p = 0.05$), which is a lower degree of significance. This demonstrates that the model can forecast how corporate income tax, firm size, liquidity, leverage, firm age, and business growth affect the profitability of banks listed on the India stock market. At the 95 percent confidence level, a p-value (sig.) of less than 0.05 is considered statistically significant. This means that a p-value greater than 0.05 shows that the connection between the dependent and independent variables is statistically insignificant.

Our finding reveals a positive correlation among corporate income tax and bank firm performance which sharply contradicts the finding of various studies which looked at the correlation between tax planning and firm performance of companies other than financial firms but our findings is in line with various studies which find correlation among corporate firm profitability and tax planning. Our study also reveals a significant relationship between business size and profitability of banks. This supports the findings of academics and experts in the field, that the relationship between business size and firm performance is very favourable. They perceive a negative effect of firm leverage on bank performance but they do not find any relationship between liquidity, firm age and business growth and bank performance.

5. CONCLUSION

Using evidence data from banks listed on the India stock market, the article analyses the relationship between corporate tax preparedness and bank performance. Understanding how the banking sector operates is essential because it has repercussions in all other areas of the economy. This research investigates the relationship between bank profitability and tax planning efforts in a developing nation. According to specialists in the sector, non-financial firm success and tax preparation have a neutral relationship. There's also no relationship between business performance and tax preparation. People examine how corporate tax, business size, liquidity, leverage, company age, and company growth influence India's listed banks' ROA. From 2015 to 2019, data from all eight listed banks on the ISE was used in the study. People perceive a positive relationship between corporate income tax and bank performance, as well as a link between company size and bank performance. This shows that listed banks' tax planning efforts in India have a substantial impact on their profits. People encourage bank CEOs to examine and manage their tax burden in order to maximize their profits. Understanding how the banking industry works is essential because it has ramifications across the economy. The link between bank profitability and tax planning efforts in a developing country is examined in this research. Non-financial business performance and tax preparation have also shown to have a neutral relationship, according to experts in the field. There is also no relationship between company performance and tax preparation. In particular, people examine at how corporation tax, business size, liquidity, leverage, firm age, and firm growth affect the return on assets (ROA) of India's listed banks. The study uses data from all eight listed banks on the India Stock Exchange (ISE) from 2015 to 2019. For the analysis of our study, people used the ordinary least squares (OLS) regression model. There is a link between bank performance and business tax preparation, according to our findings. People urge bank CEOs to examine and manage their tax burden in order to improve their profitability.

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